

Crystal Wealth Partners Market Commentary – February 2024

Please find our commentary on investment markets to 29th February 2024.

It was mostly a positive month for global equities, with resilient economic data and relatively strong company earnings reports contributing to the gains. Fixed income, on the other hand, was broadly weaker as investors continued to push out assumptions for interest rate cuts further into 2024.



US Markets

The disinflation, 'soft landing' narrative remains intact so far, despite some strong January economic data points continuing in the US. January headline CPI ran higher, increasing 0.3% month-on-month, above the consensus of a 0.2% rise, and the core CPI measure rose 0.4% month-on-month versus a 0.3% expected rise. However, the Federal Reserve's preferred measure of inflation declined on a year-on-year basis, edging closer towards its 2% target. The January unemployment rate held steady at 3.7% for the third consecutive month. However, retail sales were weak in January and below consensus following a downward revision to the December figures.

The US company reporting season is almost over, with 95% of the S&P500 companies having reported fourth quarter results. For the large-cap companies, results were better-than-expected, as 73% of the S&P500 members beat market estimates. This is near the 5-year average, and with reported growth in earnings overall of 4%, it represents the second straight quarter of year-on-year growth. For the next calendar year, analysts currently estimate 11% earnings growth for S&P500 companies.

Once again, all three major US indices notched monthly gains in February and all three reached new all-time highs. The Dow Jones Industrial Average rose 2.22% and the S&P500 added 5.1% over the month. The technology and growth dominated NASDAQ100 increased 5.3% in January. All sectors finished higher, with Consumer Discretionary outperforming with an 8.7% increase. The S&P500 has now had its strongest first two months of the year since 2019.

The US bond market experienced modest weakness in February as yields rose following more hawkish interpretations from the January FOMC meeting, and this led to a broad repricing of US Fed rate-cut

expectations. The US 10-year Treasury yield finished the month at 4.24%, up from 3.88% in early February. The longer-term 30-year yield also drifted higher and finished February at 4.365%. The yield curve remains inverted still but is flattening out.

World Markets

Eurozone inflation slowed less than expected in February. Annual consumer price growth in the region slowed marginally to 2.6% and core inflation decelerated to 3.1%, which was above the consensus estimate of 2.9%. The European Commission's economic sentiment indicator declined unexpectedly in February. Eurozone PMI improved to 48.9, up from 47.9 the previous month. However, a PMI reading of less than 50 means manufacturing remains still in contraction territory.

European equities were broadly higher in February though underperformed other developed markets, with Germany's DAX index up 4.58% and France's CAC40 up 3.54%. Government bonds lost ground over the month, with German Bunds down 1.4% (rates higher), however spreads between Italian and German sovereign debt tightened.

In the UK, wage growth fell less than expected in December and the -0.3% fourth quarter GDP result showed that the UK fell into a technical recession last year. Despite this, investors have pared back their rate cut forecasts for the Bank of England as well. UK equities underperformed, with the FTSE100 closing February flat.

Despite a weaker than expected fourth quarter GDP print, Japanese equities rose in February. The monetary policy backdrop remains accommodative, with the Bank of Japan Governor stressing that it is too early for the central bank to shift on its monetary policy stance. Consumer inflation in the country slowed in January to 2% year-on-year from the previous month's 2.3%. Further currency weakness likely assisted equities given the export-oriented nature of the Japanese stock market. The Nikkei225 rose almost 8% in February and the 10-year Japanese government bond yield finished the month a little higher at 0.71%.

February's economic data continued to show a mixed outlook for China. The official manufacturing purchasing managers index (PMI) fell to 49.1, remaining below the 50 threshold separating growth from contraction, due to declines in production and exports. Seasonal factors were also at play as factories were closed for the Lunar New Year holiday that took place in February. Despite Beijing's efforts to improve the property sector, property sales fell 20.9% from the previous month and analysts attributed this fall to a sales drought during the Lunar New Year holiday. During February, the Chinese government announced a number of supporting interventions including a cut to the 5-year loan prime rate, curbs on short selling and stock purchases by state-owned investment firms. As such, the Shanghai Composite rallied over 8%. Hong Kong equities rallied in February as sentiment was lifted by supportive measures. Technology stocks, in particular, outperformed and the Hang Seng rose 6.63% over the month.

Australia

Inflation data again proved positive news, with January inflation surprising on the downside compared to market forecasts. Consumer spending remains weak, as many households continue to contend with ongoing cost of living pressures. The labour market remains tight but has continued to gradually loosen, with employment growth slowing and the unemployment rate edging higher. The focus remains on wages growth with some leading indicators suggesting that it will begin to decelerate.

The Reserve Bank of Australia (RBA) held its first board meeting for 2024 under the new monetary policy decision regime. At the meeting, the board held cash rates steady at 4.35%, noting further

increases in interest rates could not be ruled out. Although economic data over the past few months has weakened the case for further rate hikes, the RBA needs to be convinced that inflation is sustainably returning to the 2-3% target. As such, many market estimates have pushed back the expected timing of the first rate cut from around June to September or later this year.

Australian equities climbed in February, with the S&P/ASX200 closing the month at another new record high, boosted by the steady inflation data. Sector divergence continued over the month, with Information Technology clearly claiming the top spot with a staggering 19.5% gain, followed by Consumer Discretionary gaining 9.15%. Energy, which was the top-performing sector in January, was the laggard in February, retreating almost 6%. Overall, seven of the eleven sectors posted gains. Large-caps underperformed mid and small-caps, reversing the trend experienced at the end of 2023 and January this year.

Australian bond yields rose 12-13 basis points across the curve as rate cut expectations were pared back. The spread between the Australian 2-year Treasury yield and the higher US 2-year Treasury yield widened in February, representing the difference in interest rate expectations between the two countries.

Other Markets

With geopolitical and macro risks continuing, especially in the Middle East and Red Sea region, oil prices moved over 3% higher in February. In addition, the potential for more OPEC+ production cuts pushed up oil to USD\$78.26 a barrel. The outlook for the commodity remains volatile as the conflict continues to drag on and potentially escalate more broadly.

Iron ore prices remain under pressure following continued concerns over the outlook for the Chinese economy. Prices fell 6.8% over the month as markets continue to assess signs of more economic support measures from the Chinese authorities, as concerns of a weak Yuan limit the room for more aggressive accommodative monetary policy. The commodity finished January at USD\$125.86 per tonne.

After a weak start to 2024, the price of gold marginally improved in February, gaining 0.26%. The precious metal closed February at USD\$2,044 per/oz after falling below USD\$2,000 per/oz mid-month after the more benign US inflation prints.

For a second consecutive month, the Australian dollar fell against the USD, down almost 1% in February. The exchange rate declined on a combination of AUD weakness and USD strength following a stronger-than-expected US employment report, which saw traders unwind some of the pricing for US rate cuts this year. The AUD traded between USD\$0.6453 and USD\$0.6572 before closing February at USD\$0.6497.

Index*	1 Month	3 Months
US – Dow Jones	2.22%	8.47%
US – Nasdaq (100)	5.29%	13.14%
US – S&P 500	5.10%	11.57%
Germany – DAX	4.58%	9.02%
UK – FTSE 100	-0.01%	2.36%
Shanghai Composite - SSE	8.13%	-0.48%
Hong Kong- Hang Seng	6.63%	-3.12%
Japan – Nikkei 225	7.94%	16.96%

S&P/ASX 200	0.23%	8.63%
All Ordinaries Index	0.59%	9.07%
Gold (USD)	0.26%	0.42%
Oil (USD) – WTI	3.18%	3.03%
Iron Ore (USD)	-6.82%	-5.77%
10 Year Aus Gov't Bonds (yield)	1.52%	-5.18%
10 Year US Gov't Bonds (yield)	8.58%	-1.76%
AUD/USD	-0.98%	-1.58%

* percentage change in local currency unless stated otherwise

If you have any questions in relation to the above, or require any additional information, please do not hesitate to contact your Adviser to discuss your particular circumstances.